

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05  
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P 031618Z DEC 77  
FM AMEMBASSY SANTIAGO  
TO SECSTATE WASHDC PRIORITY 7376

UNCLAS SANTIAGO 9789

E.O. 11652: N/A  
TAGS: CI, EFIN  
SUBJECT: FINANCE MINISTER ANNOUNCES NEW ECONOMIC MEASURES

1. LAST NIGHT, FINANCE MINISTER SERGIO DE CASTRO PREEMPTED PRIME TIME NATIONAL TELEVISION AND RADIO PROGRAMMING TO ANNOUNCE A SERIES OF NEW AND IMPORTANT ECONOMIC MEASURES. CAREFULLY ESTABLISHING HIS AUTHORITY IN THE FIRST SENTENCE, DE CASTRO SAID THAT HE WAS SPEAKING TO THE COUNTRY ON INSTRUCTION FROM PRESIDENT PINOCHET.

2. IN SUMMARY, THE FOLLOWING MEASURES WOULD BE TAKEN:

A. LIBERALIZATION OF TRADE POLICY. THERE WILL BE A FURTHER DECREASE IN TARIFFS, PHASED IN TO REACH 10 PERCENT AD VALORUM LEVEL BY JUNE OF 1979. EFFECTIVE IMMEDIATELY, TARIFFS ON CAPITAL GOODS NOT PRODUCED LOCALLY WILL BE REDUCED TO 10 PERCENT. NOT SPECIFIED, A FEW ITEMS HAVING THE LOWEST EFFECTIVE PROTECTION WILL CONTINUE TO BE PROTECTED AT A HIGHER RATE DOWN TO 15 PERCENT. WHILE DE CASTRO DID NOT SAY SO, IT IS ASSUMED THAT THE AUTOMOBILE INDUSTRY IS EXCEPTED FROM THIS GENERAL REDUCTION.

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B. COMPENSATORY MEASURES. TO COMPENSATE LOCAL INDUSTRY FOR THE INCREASED IMPORT COMPETITION RESULTING FROM LOWERED TARIFF BARRIERS, THE FOLLOWING MEASURES WERE ANNOUNCED: A) DEVALUATION. THE PESO HAS BEEN DEVALUED IN REAL TERMS BY 4.38 PERCENT EFFECTIVE DECEMBER 3. AS BEFORE, THE PESO WILL CONTINUE TO BE INCREMENTALLY DEVALUED RELATIVE TO THE CONSUMER PRICE INDEX. BEGINNING IN FEBRUARY, THE

MINI-DEVALUATIONS WILL INCLUDE SLIGHT ADJUSTMENTS TO COMPENSATE FOR EACH MONTH'S TARIFF REDUCTIONS IN ADDITION TO THE INFLATIONARY ADJUSTMENT. B) TAX REDUCTIONS. THERE WILL BE SIGNIFICANT REDUCTIONS ON EMPLOYER-PAID SOCIAL SECURITY CONTRIBUTIONS AND ON PETROLEUM FUELS AND ELECTRICITY CONSUMPTION TAXES.

C. EXPANSION OF LIQUIDITY. THE LEGAL RESERVE REQUIREMENT FOR SHORT-TERM TIME DEPOSITS (UP TO 89 DAYS) IS REDUCED FROM 27 PERCENT TO 20 PERCENT. ALONG WITH FURTHER, BUT AS YET UNSPECIFIED, REDUCTIONS IN RESERVE REQUIREMENTS FOR OTHER MONEY SUPPLY COMPONENTS, AN INCREASE IN THE MONEY SUPPLY OF APPROXIMATELY 89 MILLION DOLLARS IS EXPECTED DURING THE MONTH OF DECEMBER. THE FINANCE MINISTER ALSO ANNOUNCED THAT EVEN FURTHER LIQUIDITY WOULD RESULT FROM THE PROJECTED INCREASE IN FOREIGN BORROWING BY BOTH THE PUBLIC AND PRIVATE SECTORS.

COMMENT: THESE MEASURES CONTINUE THE GOC'S BASIC ECONOMIC POLICY OF THE PAST THREE YEARS, WHILE AT THE SAME TIME ACKNOWLEDGING THAT SOME OF THE CRITICISM FROM LOCAL INDUSTRY HAS BEEN JUSTIFIED. THE OBJECTIVE REMAINS TO DIRECT THE ALLOCATION OF RESOURCES ON THE BASIS OF COMPARATIVE ADVANTAGE. HOWEVER, PREVIOUS MEASURES, SUCCESSFUL IN LOWERING INFLATION AND IMPROVING THE BALANCE OF PAYMENTS, HAVE DEPRESSED LARGE SEGMENTS OF LOCAL INDUSTRY, PARTICULARLY PRODUCERS FOR CHILEAN CONSUMPTION

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ONLY. THUS, COSTS OF PRDUCTION ACROSS THE BOARD WILL BE LOWERED BY THE ANNOUNCED TAX REDUCTIONS, AND THROUGH AN INCREASE IN LOANABLE FUNDS DOWNWARD PRESSURE SHOULD BE EXERTED ON INTEREST RATES. FURTHERMORE, THE IMMEDIATE 10 PER CENT DUTY RATE ON MANY CAPITAL GOODS SHOULD ALSO BE A SPUR TO INDUSTRIAL INVESTMENT.

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## Message Attributes

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